

**435th meeting of the Accounts Commission for Scotland
Thursday 13 April 2017, 10.15am
In the offices of Audit Scotland, 102 West Port, Edinburgh**

Agenda

1. **Apologies for absence.**
2. **Declarations of interest.**
3. **Decisions on taking business in private:** The Commission will consider whether to take items 10 to 14 in private (* see note).
4. **Minutes of meeting of 9 March 2017.**
5. **Audit Scotland Board update:** The Commission will consider a verbal report by the Chair and Secretary to the Commission.
6. **Update report by the Secretary to the Accounts Commission:** The Commission will consider a report by the Secretary to the Commission on significant recent activity in relation to local government.
7. **Update report by the Controller of Audit:** The Commission will consider a verbal report by the Controller of Audit providing an update on his recent activity.
8. **CIPFA consultations on the Prudential Code and the Treasury Management Code Of Practice:** The Commission will consider a report by the Director of Performance Audit and Best Value.
9. **Form and content of 2016/17 Independent Auditors' Reports:** The Commission will consider a report by the Assistant Auditor General.

The following items are proposed to be considered in private:*

10. **Audit Scotland update:** The Commission will consider a report by the Chief Operating Officer.
11. **Strategic Scrutiny Group Update:** The Commission will consider a report by the Director of Performance Audit and Best Value.
12. **Equality outcomes: reflecting back and looking forward:** The Commission will consider a report by the Chair of Audit Scotland Diversity and Equality Steering Group.
13. **The new approach to auditing Best Value - reporting:** The Commission will consider a joint report by the Secretary and the Controller of Audit.
14. **Commission business matters:** The Commission will discuss matters of interest.

* It is proposed that item 10 to 14 be considered in private because:

- Item 10 is a discussion on matters relating to the Commission's relationship with Audit Scotland, which may involve confidential issues which the Commission would wish to consider in private.
- Item 11 presents an update on discussions with strategic scrutiny partners which may include confidential policy matters that the Commission would wish to discuss in private before proceeding.
- Item 12 proposes draft reports, which the Commission is to consider and consult appropriately with stakeholders if necessary before publishing.
- Item 13 presents proposals around operational matters relating to the new approach to auditing Best Value, which the Commission may wish to discuss with the Controller of Audit before informing stakeholders.
- Item 14 may be required if there are any confidential matters that require to be discussed outwith the public domain. The Chair will inform the meeting in public at the start of the meeting if this item is required and what it covers.

The following papers are enclosed for this meeting:

Agenda Item	Paper number
Agenda Item 4: Minutes of meeting of 9 March 2017	AC.2017.3.1
Agenda Item 6: Report by Secretary to the Commission	AC.2017.3.2
Agenda Item 8: Report by Director of Performance Audit and Best Value	AC.2017.3.3
Agenda Item 9: Report by Assistant Auditor General	AC.2017.3.4
Agenda Item 10: Report by Chief Operating Officer	AC.2017.3.5
Agenda Item 11: Report by Director of Performance Audit and Best Value	AC.2017.3.6
Agenda Item 12: Report by Chair of Audit Scotland Diversity and Equality Steering Group	AC.2017.3.7
Agenda Item 13: Report by Secretary and the Controller of Audit	AC.2017.3.8

MEETING: 13 APRIL 2017

MINUTES OF PREVIOUS MEETING

Minutes of the 434th meeting of the Accounts Commission held in the offices of Audit Scotland at 102 West Port, Edinburgh, on Thursday, 9 March 2017, at 10.15am

PRESENT: Ronnie Hinds (in the chair)
 Sophie Flemig
 Sheila Gunn
 Tim McKay
 Christine May
 Stephen Moore
 Graham Sharp
 Pauline Weetman
 Geraldine Wooley

IN ATTENDANCE: Paul Reilly, Secretary to the Commission
 Fraser McKinlay, Controller of Audit and Director of Performance Audit and Best Value (PABV)
 Antony Clark, Assistant Director, PABV [Item 13]
 Diane McGiffen, Chief Operating Officer, Audit Scotland [Items 7 and 8]
 Fiona Mitchell-Knight, Assistant Director, Audit Services [Item 11]

<u>Item No</u>	<u>Subject</u>
1.	Apologies for absence
2.	Declarations of interest
3.	Decisions on taking business in private
4.	Minutes of meeting of 9 February 2017
5.	Minutes of meeting of Financial and Audit Assurance Committee 23 February 2017
6.	Minutes of meeting of Performance Audit Committee 23 February 2017
7.	Minutes of meeting of Audit Scotland Board 20 January 2017
8.	Audit Scotland Board Update
9.	Update report by the Secretary to the Accounts Commission
10.	Update report by the Controller of Audit
11.	Auditing Best Value: progress report
12.	Local Government Benchmarking Framework Annual Report
13.	Work Programme: Outputs from consultation with stakeholders
14.	Commission business matters

Opening remarks

Ronnie Hinds advised that members had received a personal individual communication from Douglas Sinclair intimating that he had retired as Chair of the Commission on 8 March due to ill health. Ronnie Hinds paid tribute to the service made by Mr Sinclair to the Commission since 2007, in his roles of member, then Deputy Chair, and then Chair. He thanked Mr Sinclair for the commitment that he brought to his roles, and to the development of the Commission during his time in office. He also acknowledged Mr Sinclair's long career in local government. The Commission intimated its agreement with Mr Hinds' comments.

Ronnie Hinds then advised the Commission that he would chair the meeting, and advised that the Secretary would inform the Commission in due course about the role of Acting Chair of the Commission.

1. Apologies for absence

It was noted that apologies for absence had been received from Alan Campbell and Sandy Cumming.

2. Declarations of interest

The following declarations of interest were made:

- Sheila Gunn, in item 12, as a non-executive Director of the Wheatley Group, concerning its relationship with Glasgow City Council.
- Christine May, in items 9, 12 and 13, as Chair of Fife Cultural Trust, in relation to references to arm's length external organisations.
- Geraldine Wooley, in item 9, as a member of Fife Valuation Appeal Committee, in relation to references to the Council Tax.

3. Decisions on taking business in private

It was agreed that Item 13 be taken in private, as it would require discussion of the draft Work Programme before it is published, including consideration of comments thereon from councils and other stakeholders.

The Deputy Chair advised that there was no business for item 14 and thus would not require discussion.

4. Minutes of meeting of 9 February 2017

The minutes of the meeting of 9 February 2017 were approved as a correct record.

5. Minutes of meeting of Financial Audit and Assurance Committee 23 February 2017

The minutes of the meeting of the Financial Audit and Assurance Committee of 23 February 2017 were approved as a correct record, subject to including Ronnie Hinds as being among those present at the meeting.

With reference to item 4, the Commission noted that the Committee, on advice from the Controller of Audit that he expects assessment of the robustness of option appraisal to feature in annual audit work, agreed to recommend to the Commission that such a matter continue to be considered for future performance audit or related work.

The Commission accepted the recommendation.

6. Minutes of meeting of Performance Audit Committee 23 February 2017

The minutes of the meeting of the Performance Audit Committee of 23 February 2017 were approved as a correct record.

7. Minutes of meeting of Audit Scotland Board 20 January 2017

The minutes of the meeting of the Audit Scotland Board of 20 January 2017 were noted.

During discussion, the Commission noted advice from Diane McGiffen:

- In relation to items 11 and 18, arising from a query from Geraldine Wooley, that the Commission would further consider Audit Scotland's approach to 'securing world class audit' when it considers Audit Scotland's revised Corporate Plan at a forthcoming meeting.
- In relation to item 13, arising from a query from Ronnie Hinds, that the outputs from the 'Making a Difference: Demonstrating Value for Money' initiative would be reflected in the ongoing approach being taken to auditing Best Value.

8. Audit Scotland Board Update

Diane McGiffen provided a verbal update on recent Audit Scotland Board activity.

9. Update report by the Secretary to the Accounts Commission

The Commission considered a report by the Secretary to the Commission providing an update on significant recent activity relating to local government and issues of relevance or interest across the wider public sector.

During discussion, the Commission agreed:

- In relation to paragraph 7, to approve a response to the Scottish Government consultation proposing changes to the Councillors' Code of Conduct, subject to changes agreed in the discussion.
 - *Action: Secretary*
- In relation to paragraph 11, arising from a query by Ronnie Hinds, to note advice from the Controller of Audit that he was holding a meeting with the Scottish Government and local government representatives to discuss audit and accountability issues around the Pupil Equity Funding initiative.
- In relation to paragraph 15, that the Controller of Audit retain a watching brief on the impact on councils of business rates revaluation, such as in relation to appeals against valuations.

Following discussion, the Commission agreed to note the report.

10. Update report by the Controller of Audit

The Controller of Audit provided a verbal update on his recent activity including meetings and discussions with stakeholders.

During discussion, the Commission noted advice from the Controller of Audit that he and the Assistant Auditor General would be meeting Aberdeen City Council to discuss audit issues around the Council's index-linked capital bond arrangement.

Following discussion, the Commission noted the update.

11. Auditing Best Value: progress report

The Commission considered a report by the Director of PABV updating the Commission on progress with the new approach to auditing Best Value.

Following discussion, the Commission:

- Noted the progress made.
- Noted that the Best Value Working Group would continue to consider matters in relation to the development and implementation of the approach, referring matters to the Commission for its decision as appropriate.
- Endorsed a publication timetable for all Best Value Assurance Reports to be reported by January 2018, with the scheduling of individual reports to be determined by the Controller of Audit.
- Endorsed the proposed tranche of councils for year two.

Actions: Controller of Audit and Secretary

12. Local Government Benchmarking Framework Annual Report

The Commission considered a report by the Secretary to the Commission advising the Commission of the publication of the Local Government Benchmarking Framework (LGBF) Overview Report for the year 2015/16.

During discussion, the Commission:

- Noted the publication of the LGBF Overview Report for 2015/16 and the accompanying press release.
- Noted the continuing dialogue between the Commission and the LGBF board, and the progress being made in taking forward the Commission's previously stated views on the further development of the project.
- Further in this regard, that a meeting be set up between the Commission and the project board to review progress and to discuss specifically the Commission's interest in:
 - Further progress with developing customer satisfaction measures
 - The use of benchmarking data by council 'family groups' and by professional groups
 - Developing a richer understanding of the reasons for the variations between councils in performance and costs.

• Action: Secretary

- Note that Audit Scotland will be considering further the implications of the report on its work.
- Further in this regard, in response to a query from Christine May, to note advice from the Controller of Audit that auditors were expected to consider the framework as part of financial audit and Best Value auditing work.

13. Work Programme: Outputs from consultation with stakeholders [in private]

The Commission considered a report by the Secretary to the Commission setting out the responses to the recent consultation on the joint work programme 2016/17 – 2020/21 and seeking the Commission's approval of the programme.

During discussion, the Commission:

- Noted advice from the Director of PABV about his considering audit and accountability issues in relation to the Pupil Equity Funding initiative, in relation to which he would keep the Commission informed of developments.
- Agreed that issues around commercial activities of councils in identifying new income streams be considered in scoping for the proposed performance audit on innovative funding.
- Agreed that audit coverage of integrated children's services remain under consideration in programme development activity, and be subject to discussion with scrutiny partners through the Strategic Scrutiny Group.
- Agreed that services such as environmental health, trading standards, planning and libraries continue to be monitored through programme development activity and in the new approach to auditing Best Value.
- Noted advice from the Director of PABV that involvement of staff in improvement and redesign of services was an important line of enquiry in the new approach to auditing Best Value.
- Agreed that 'alternative outputs' be referred to as 'additional outputs' where appropriate.
- Approved the programme of work, subject to liaison with the Auditor General for Scotland in relation to any joint audit work
- Endorsed the proposed publication and communication arrangements, including responding individually to all councils, publishing on the website, and sharing with stakeholders including Ministers, MSPs and Scottish Parliamentary committees.
- Agreed to discuss the programme with scrutiny partners through the Strategic Scrutiny Group.
- Agreed to consider how it engages with stakeholders on its work programme at its forthcoming Strategy Seminar.

Actions: Secretary and Director of PABV

14. Commission business matters

There was no business for this item.

Thereafter, the meeting was closed.

MEETING: 13 APRIL 2017**REPORT BY: SECRETARY TO THE COMMISSION****UPDATE REPORT**

Introduction

1. The purpose of this report is to provide a regular update to the Accounts Commission on significant recent activity relating to local government, as well as issues of relevance or interest across the wider public sector.
2. The regular Controller of Audit report to the Accounts Commission which updates the Commission on his activity complements this report. The Commission's Financial Audit and Assurance Committee (FAAC) also receives a more detailed update on issues relating to local government. This report also complements the weekly briefing provided by Audit Scotland's Communication Team made available on the Commission members' extranet portal, which provides more detailed news coverage in certain areas.
3. The information featured is also available on the Accounts Commission member portal. Hyperlinks are provided in the electronic version of this report for ease of reference.

Commission business***Retirement of Douglas Sinclair***

4. Douglas Sinclair has retired as Chair of the Commission due to ill health. Douglas has served on the Commission since February 2007, first as a member, then from October 2009 as Deputy Chair, and from December 2013 as Chair.
5. The Minister for Local Government and Housing, Kevin Stewart, has written to Douglas to thank him for his service on the Commission. On 13 March, the Scottish Government issued a [press release](#), in which the Minister said, "Douglas first joined the Commission as a Member before becoming Deputy Chair and Chair. His commitment has been substantial and I thank him for his service. His long and distinguished career in local government undoubtedly helped inform the his leadership of the Commission. He has always worked to promote the commission's integrity and impartiality and was much respected in his stewardship."
6. The Minister has written to Ronnie Hinds, advising him that he is content that he fulfils the role of Acting Chair until a new Chair is appointed. This role applies from 9 March, the day after Douglas' resignation.
7. I have agreed with Ronnie Hinds and the Scottish Government that it would be desirable to have a new Chair in place from 1 November 2017. I am working with the Scottish Government on a timetable to this end.
8. Meantime, Ronnie has advised that he would like to have an Acting Deputy Chair in place for the period to 1 November. The Scottish Government has confirmed with me that it is content that this be a matter for the Commission, with a view to the Commission's decision being endorsed by the Minister. I will propose a process to Commission members to allow the Deputy Chair post to be filled from amongst the Commission's membership. I will advise you further of this in due course.

Publications

9. On 7 March, the Accounts Commission published "[Local government in Scotland: Performance and challenges 2017](#)". The overview report saw that councils have maintained or improved their performance in the face of financial challenges and increased demand on services. Looking ahead, the Commission emphasised that councillors elected in May need to focus on improving long-term planning, work with their communities to decide key priorities and then make that plan happen. There was good coverage across all media, ranging from declining budgets to street cleaning and sickness absence levels. The report has been downloaded 1,197 times and podcast 41 times.
10. The download statistics (with the increase from last month) for the reports published by the Commission over the last 12 months (as at 27 March 2017) are shown below:

Report	Date	Report downloads	Report podcasts
Local government in Scotland: Performance and challenges 2017	7 Mar 2017	1197	41
East Dunbartonshire Council: Best Value audit report	15 Dec 2016	549 (+79)	86 (+0)
Falkirk Council: Best Value audit report	1 Dec 2016	718 (+66)	170 (+0)
Local government in Scotland: Financial Overview 2015/16.	29 Nov 2016	2627 (+333)	179 (+34)
How Councils Work – Roles and working relationships in councils: are you still getting it right?	8 Nov 2016	2344 (+159)	
School education impact report	18 Oct 2016	95 (+0)	
School education Scrutiny supplement	18 Oct 2016	75 (+0)	
Angus Council: Audit of Best Value	4 Oct 2016	605 (+47)	
Social Work in Scotland	22 Sept 2016	5482 (+1513)	
Maintaining Scotland's roads: a follow-up report	4 Aug 2016	2272 (+130)	
South Ayrshire Council: Audit of Best Value and Community Planning	29 Jun 2016	894 (+46)	
Accounts Commission annual report 2015/16	26 May 2016	89 (+46)	
Accounts Commission Engagement strategy and engagement plan 2016/17	26 May 2016	458 (+21)	271 (+0)
Accounts Commission Strategy and annual action plan 2016-21	26 May 2016	518 (+37)	208 (+0)
Accounts Commission engagement plan 2015/16: Progress report	26 May 2016	134 (+0)	
Accounts Commission Action plan 2015/16: Progress report	26 May 2016	158 (+0)	
Code of audit practice 2016	26 May 2016	1352 (+75)	
Reshaping Care for Older People – Impact Report	10 May 2016	988 (+42)	
National Scrutiny Plan	31 Mar 2016	788 (+25)	
Local Government Overview 2016	17 Mar 2016	5207 (+320)	253 (+0)

Report	Date	Report downloads	Report podcasts
Changing Models of Health and Social Care	10 Mar 2016	10866 (+1216)	872 (+0)
Community Planning update	3 Mar 2016	3677 (+175)	88 (+0)

Other business

11. The Commission's annual Strategy Seminar took place on 28 and 29 March. A revised Commission Strategy, reflecting deliberations at the Seminar, will be considered by the Commission at its May meeting.
12. On 16 March, East Dunbartonshire Council considered the Accounts Commission's [Best Value audit report](#) and agreed to accept all recommendations made by the Accounts Commission and Controller of Audit, to approve an Improvement Action Plan, and to note that further progress reports will be provided to the council.
13. At its meeting on 9 February, the Accounts Commission asked about the implications of the Scottish Government's consultation paper "[Empowering teachers, parents and communities to achieve excellence and equity in education: a governance review](#)" on pupils with additional support needs. The consultation paper does not make any specific references to children with additional support needs (ASN), other than to state that the scope of the governance review includes publicly-funded education provision for children with ASN.
14. A theme coming through consultation responses from organisations with a particular interest in children with ASN is about the ability of individual schools to plan for and meet the needs of pupils with ASN, as they may lack expertise, experience and training at school level. They highlight that local authorities may provide specialist services for pupils with ASN. However respondents also highlighted the potential advantages from more collaborative working across schools and regions to share expertise and experience in relation to children with ASN under new governance arrangements. The Scottish Government's aims for education include raising attainment and achieving equity for all learners, with a particular focus on closing the deprivation-related attainment gap. There are risks that the focus on the deprivation-related attainment gap could mean that schools have less focus on reducing the gap for pupils with ASN. New accountability arrangements will need to ensure that schools place enough focus on improving outcomes for pupils with ASN. The JELL cluster will continue to monitor the impact of the education governance review.

Auditor General for Scotland

15. On 9 March, the Auditor General for Scotland published "[i6: a review](#)". The report found that a project to build a national IT system for Police Scotland followed good practice in its early stages but ultimately collapsed due to a damaging loss of trust between those involved and fundamental disagreements about what the programme needed to deliver. It stressed that the failure of the project leaves urgent need to deliver police IT requirements. There was extensive coverage across the media. The Auditor General featured in a BBC interview and on Good Morning Scotland. The report has been downloaded 1,076 times and podcast 160 times.
16. On 23 March, the Auditor General published "[Managing new financial powers: an update](#)". The report highlighted that while the Scottish Government is well-organised to deliver game-changing new tax and spending powers, more work is needed to build a clearer picture of what the changes will cost and how staffing challenges will be addressed in the next stage of financial devolution. The report attracted some media interest and was widely shared on Twitter. The Auditor General was interviewed on

Good Morning Scotland. The report has been downloaded 179 times and podcast 81 times.

Audit Scotland

17. On 16 March, Audit Scotland launched [a new e-hub on Scotland's new financial powers](#) on its website. The e-hub provides the overview of Audit Scotland's work in this area, and aims to be a resource for people who want to find out more.

Issues affecting local government

Scottish Government

18. The Chair has approved the terms of a response from the Commission, in conjunction with the Auditor General and Audit Scotland, to a Scottish Government [consultation](#) on the long-term management arrangements for the Crown Estate in Scotland. The response is available on the members' extranet portal.
19. On 14 March, the Scottish Government published the [quarterly housing statistics](#), which found a 20 per cent increase in the number of new affordable homes approved in 2016, compared to 2015. There were 8,840 affordable homes approved in 2016, which includes houses for both the social rental and home ownership market. Meanwhile, approvals for new build social rented properties were up 17% in 2016, to 5,101 properties. The figures were published as Housing Minister Kevin Stewart confirmed £70 million funding for 2017/18 for the Scottish Government's Open Market Shared Equity scheme to help first time buyers and priority groups buy a property.
20. On 16 March, the Scottish Government published the annual [statistics on Poverty and Income Inequality](#) in Scotland, where both poverty and income inequality have risen in 2015/16. The number of people living in poverty has increased from 18 per cent to 20 per cent of the population. The top 10 per cent of the population had 38 per cent more income than the bottom 40 per cent combined, compared to 15 per cent more income in 2014/15. The proportion of children living in poverty has also increased from 22 per cent to 26 per cent, representing 260,000 children. The Scottish Government's [Child Poverty Bill](#) (which was [consulted](#) in summer 2016 and is currently Stage 1 consideration at the Scottish Parliament) will set a target to reduce the percentage of children living in poverty to ten per cent by 2030.
21. On 17 March, Cabinet Secretary for Finance and Constitution Derek Mackay confirmed that an additional £15.6 million will be reinvested back into the [Digital Scotland Superfast Broadband project](#). This additional funding will be aimed at maximising the numbers of premises that have access to speeds of greater than 24Mbps, with a particular focus on areas with the lowest speed coverage, including Aberdeenshire, Angus, Dumfries and Galloway, Perth and Kinross, Scottish Borders and Stirling.
22. On 18 March, First Minister Nicola Sturgeon announced that [childcare workers](#) in the private and third sector nurseries will be paid at least the Living Wage by the end of this parliament. She also pledged new [£2 million funding](#) for nurseries to improve access to free early learning and childcare (ELC) provision for children with additional support needs. Both moves form part of the ELC expansion to 1,140 hours by 2020.
23. On 23 March, following First Minister's announcement (see above.), Minister for Childcare and Early Years, Mark McDonald made a statement about the Scottish Government's [Action Plan](#) for 2017/18 towards the expansion of ELC to 1,140 hours, together with [Consultation Analysis Report](#) and [ELC Expansion Planning Guidance for Local Authorities](#). The Plan includes developing a Quality Action Plan by October 2017, including establishing a national standard for all providers of funded childcare and

launching a recruitment marketing campaign in autumn 2017. He also mentioned a feasibility study to be conducted on establishing an 'early learning and childcare account', which enables parents to receive funding for ELC provision directly.

24. On 22 March, the Scottish Government launched [Realising Scotland's full potential in a digital world: A Digital Strategy for Scotland](#). The strategy includes boosting the number of digital jobs by 150,000 over the next five years, launching a new Digital Growth Fund to address skills shortages, ensuring all premises in Scotland have access to broadband speeds of at least 30Mbps by 2021, launching a new digital schools programme, funding for community digital inclusion projects and the expansion of the Digital Participation Charter.
25. On 24 March, the Scottish Government published the annual [Scottish Social Attitudes 2016: Attitudes to government and political engagement](#). The survey found that just under a third of people (32 per cent) trusted their local council to make fair decisions (down by two per cent from 2015) and 44 per cent of people said their local council was good at listening to people's views before taking decisions (unchanged from 2015); also, two-thirds of people responded they had participated in at least one of the political activities listed in the survey, of which 26 per cent had contacted their local council while 45 per cent had signed a petition; and 87 per cent of people responded that voting in local council elections as "very important" or "fairly important", compared to 91 per cent for Scottish Parliament elections and 84 per cent for UK general elections.
26. On 24 March, the Scottish Government started a consultation [on "guidance on engaging communities in decisions relating to land which may affect communities"](#). In relation to Part 4 of the Land Reform (Scotland) Act 2016. The consultation aims at encouraging cooperative and positive working relationships between land owners and land managers and local communities. It will be closed on 16 June 2017.
27. On 27 March, the Scottish Government published a [Statutory Guidance: Standards in Scotland's Schools etc. Act 2000](#) and [Consultation Analysis Report](#). The guidance is prepared for those with responsibilities within schools and local authorities for fulfilling the duties within the legislation. It focuses on three issues, that are, pupils experiencing inequalities of outcome, National Improvement Framework and planning and reporting.
28. On 28 March, the Scottish Government published the [Scottish Social Housing Charter](#), which will come into force in April. The Charter sets the standards and outcomes that all social landlords should aim to achieve when performing their housing activities.
29. On 30 March, the Scottish Government published a [Mental Health Strategy 2017-2027](#), which includes [40 actions](#), such as increasing the mental health workforce in Emergency Departments (A and E), GP practices, police stations and prisons, supported by £35 million additional funding over the next five years for 800 additional workers, reviewing counselling and guidance services in schools, and improving support for preventative and less intensive child and adolescent mental health services.

Scottish Parliament

General

30. On 10 March, the [Budget Process Review Group](#) published its Interim Report for consultation (the closing date is 28 April). The Group was established by the Finance and Constitution Committee and the Cabinet Secretary for Finance and the Constitution. It is carrying out a fundamental review of budgetary scrutiny in order to accommodate the Scottish Parliament's new financial powers and operation of the Fiscal Framework. The Group has been tasked with recommending a new process which addresses increased levels of responsibility. The membership includes the Auditor General for Scotland. A response to its consultation is being formulated on

behalf of the Commission, the Auditor General and Audit Scotland. This will be agreed by the Chair and shared with the Commission at its next meeting.

31. On 15 March, the Scottish Parliament Information Centre published a [briefing on City Region Deals](#). The document examines the progress of City Region Deals in Scotland in reference to City Deals in England and also provides an overview of alternative joint working approaches, including the Ayrshire Growth Deal and [South of Scotland Alliance](#), and of alternative funding approaches. .
32. On 17 March, the Scottish Parliament Information Centre published a briefing on [Non-domestic Rates and the 2017 Revaluation](#). The briefing analyses the impact of the 2017 revaluation on rateable values and the estimated impact on Non-domestic rates bills. According to the briefing, over 75 per cent of local authorities see an increase in rateable values between 2016/17 and 2017/18. Those in Argyll and Bute, Aberdeen City and Aberdeenshire increase more than 20 per cent.
33. On 28 March, the Scottish Parliament agreed to formally request the UK Government's permission for [a second referendum on independence](#) for Scotland before the UK leaves the EU.

Parliamentary Committees

Local Government and Communities Committee

34. At its [meeting](#) on 22 March, the Committee took evidence on homelessness from third sector organisations, considered and noted the evidence heard. It will consider its approach to its work on this issue at a future meeting.
35. At its [meeting](#) on 29 March, the Committee took evidence on post-legislative scrutiny of the Disabled Persons' Parking Places (Scotland) Act 2009, from Scottish Disability Equality Forum, Mobility and Access Committee for Scotland and local authorities. The Committee agreed to invite representatives including local authorities to give evidence at a future meeting.

Public Audit and Post Legislative Scrutiny Committee

36. At its [meeting](#) on 16 March, the Committee took evidence on the Auditor General for Scotland's report "i6: a review" from Caroline Gardner, Auditor General for Scotland and Mark Roberts, Senior Manager and Catherine Young, Audit Manager, Audit Scotland. The Committee agreed to write to the Scottish Police Authority on issues arising from the audit. It also agreed to take further oral evidence on the Section 22 report entitled "The 2015/16 audit of the Scottish Police Authority". The Committee also took evidence on the Auditor General for Scotland's report "Changing models of health and social care" from NHS Scotland and the Scottish Government. The Committee took further evidence from Caroline Gardner, Auditor General for Scotland and Jillian Matthew, Audit Manager, Audit Scotland and agreed to close its consideration of this report.
37. At its [meeting](#) on 23 March, the Committee took evidence on the Controller and Auditor General's report "The Administration of the Scottish Rate of Income Tax 2015-16" from Caroline Gardner, Auditor General for Scotland and Steven Corbishley, Director, National Audit Office. It agreed to take oral evidence from HM Revenue and Customs (HMRC) at a future meeting.
38. At its [meeting](#) on 30 March, the Committee took evidence on the Auditor General for Scotland's report "The 2015/16 audit of NHS Tayside" from NHS Tayside and took further evidence from Caroline Gardner, Auditor General for Scotland and Carol Calder, Senior Manager, Audit Scotland. It agreed to write to the Cabinet Secretary for Health, Wellbeing and Sport regarding NHS Tayside's funding. The Committee also agreed to

write to the Scottish Government and to NHS Tayside to follow up on issues raised in evidence. The Committee also agreed its approach to the Budget Process Review Group's report.

Finance and Constitution Committee

39. At its [meeting](#) on 15 March, the Committee took evidence on the Budget (Scotland) Act 2016 Amendment Regulations 2017 [draft] from Derek Mackay, Cabinet Secretary for Finance and the Constitution and the Scottish Government officials and agreed to the draft. Following this evidence session, the Committee published [a letter from Derek Mackay on the Spring Budget Revision](#).
40. At its [meeting](#) on 22 March, the Committee took evidence on Budget Process Review Group: Interim Report from Caroline Gardner, Auditor General for Scotland, Professor James Mitchell, Professor of Public Policy, Academy of Government, University of Edinburgh and Don Peebles, Head of CIPFA Scotland. The Committee also considered a draft Stage 1 report on Air Departure Tax (Scotland) Bill and agreed to consider a further draft at its next meeting.
41. At its [meeting](#) on 29 March, the Committee considered a draft Stage 1 report on Air Departure Tax (Scotland) Bill and agreed the report, including some changes.

Others

42. At the [meeting](#) on 21 March, the Health and Sport Committee took evidence on the preventative agenda from health professionals and considered the main themes arising from the session. Fraser McKinlay, Director of Performance Audit, Audit Scotland appeared as witness to talk about [Audit Scotland's view](#) of progress in this area.
43. On 22 March, the Public Petitions Committee published [a written submission from Audit Scotland](#) in relation to petition [PE01628: Consultation on service delivery for the elderly or vulnerable](#). Audit Scotland had been specifically asked to consider its range of work on health and social care integration and its view on issues such as accountability and consultation processes. The petition calls on the Scottish Parliament to urge the Scottish Government to ensure that all changes to service delivery for elderly and/or vulnerable groups by Integrated Joint Boards (IJB) responsible for health and social care and are subject to detailed public consultation and full democratic scrutiny before final decisions are made. The petition claims that the local communities have not been fully consulted with the council (Argyll and Bute Council)'s decision of closure of the facility and the IJB's decision of service reductions.
44. The Economy, Jobs and Fair Work Committee has been holding an inquiry into the gender pay gap, looking at the definition of gender pay gap, the gap in different sectors, the Scottish Government's actions to be taken. Following the inquiry call for views (closed on 10 March), a number of evidence sessions are scheduled. At its [meeting](#) on 14 March, the Committee took evidence from Education and Skills and the Financial Sector. At its [meeting](#) on 28 March, the Committee took evidence from large private and public sector employers including councils. The Committee expects to publish its final report before summer recess 2017.

Current activity and news in Scottish local government

COSLA

45. On 9 March, COSLA announced £25 million funding to [support 29 regeneration projects](#) in disadvantaged areas across Scotland. The funding is as part of the Regeneration Capital Grant Fund and co-funded by the Scottish Government. Projects being funded

include £1.9 million to Aberdeen City Council to deliver a new purpose- built community hub in Tillydrone and £1.6 million to Argyll and Bute Council for the Tobermory Light Industrial Park. The complete list of awarded projects is available in the link.

Scottish Local Government Partnership

46. On 10 March, the [Fraser of Allander Institute](#) published a report 'Fiscal issues facing Local Government in Scotland', which was commissioned by the Scottish Local Government Partnership. The report predicted that 'unprotected' portfolios of the Scottish Government's resource budgets, that is, all the remaining spending except those on the NHS, police and childcare, will face a real-terms cut of 4.6 per cent in 2018/19, 3.6 per cent in 2019/20, and 1.3 per cent in 2020/21.

SOLACE and Improvement Service

47. On 17 March, SOLACE Scotland and the Improvement Service launched [the Local Government Innovation Exchange](#), a website bringing together innovative projects carried out by Scottish councils in order to share good practice and improve service delivery. So far it features over 150 case studies from across Scotland.

Individual councils

48. On 11 March, Cabinet Secretary for Finance and Constitution Derek Mackay confirmed that [a £15 million investment](#) in the development of infrastructure, applied for by Fife and North Ayrshire councils, has been approved. The funding is provided through the Tax Incremental Financing scheme (TIF). Working with the Scottish Futures Trust, the councils will prepare more detailed business cases. The two new schemes were announced through the 2017-18 Draft Budget and follow pilot schemes operating in Glasgow, Argyll and Bute, Falkirk and Fife.
49. There have been no by-elections since my last report.

Scrutiny, inspection, regulatory and related bodies

Scottish Public Sector Ombudsman (SPSO)

50. The SPSO's [newsletter - March](#) outlines investigation reports, recent SPSO news and highlights emerging issues. More information on the SPSO's work, including detailed investigations and decision reports, is available on the '[Our findings](#)' webpage. More detailed intelligence from the SPSO is considered on a six-monthly basis by the FAAC.

Commissioner for Ethical Standards in Public Life in Scotland

51. Since the previous meeting of the Commission, two decisions on complaints relating to councillors have been published by the Commissioner. The Commissioner decided that individuals did not contravene the Councillors' Code of Conduct. The complaint was against:
- [Councillor Kathleen Howie](#), Perth and Kinross Council
 - [Councillor Bryan Poole](#), Fife Council

Standards Commission for Scotland

52. There has been no hearing by the Standards Commission for Scotland since my last report.

Education Scotland

53. On 21 March, Education Scotland published a report, "[Strategic Inspection of the Education Functions of Local Authorities Argyll and Bute Council](#)". The report rated four out of five quality indicators as "weak" ('improvements in performance'; 'delivering and improving the quality of services'; 'leadership and direction'; and 'leadership of change and improvement') while one indicator as "satisfactory"('impact on children, young people, adult learners and families'). [A spokesman for Education Scotland](#) said: "The education authority now needs to take urgent and sustained action to address the significant areas for improvement identified throughout this report to ensure the development of its education provision and increase positive outcomes for learners across Argyll and Bute."
54. On 29 March, Education Scotland [Chief Executive, Dr Bill Maxwell](#), has announced his retirement in June 2017. Further details about the process for appointing a new Chief Executive will follow shortly.
55. In March, Education Scotland published a report, "[Quality and improvement in Scottish education 2012-2016](#)". The report covers all sectors, from early years provision to adult learning and provides key findings from inspections and other evaluative activities. It found many strengths in the quality of provision, including the commitment of staff and the continual improvement of learning experiences for pupils. However, it also stated the quality of provision is not consistent within and across sectors, highlighting five areas for improvement, such as exploiting the flexibility of Curriculum for Excellence to meet better the needs of all learners and improving arrangements for assessment and tracking to provide personalised guidance and support throughout the learner journey.

UK Government

56. On 8 March, Chancellor Philip Hammond announced his [budget for 2017/18](#). The budget includes £2 billion funding for social care services in England over the next three years. While the Local Government Association welcomed this extra funding for councils, it also pointed out that "with local government facing an overall funding gap of £5.8 billion by 2020", "short-term pressures remain and the challenge of finding a long-term solution to the social care crisis is far from over". The [Scottish government](#) will receive an extra £350 million as a result of the Barnett Formula, (comprising of capital budget of £260 million over the next three years, and its capital budget of £90 million over the next five years).
57. On 29 March, [the article 50](#) of the Lisbon Treaty was triggered after a letter from Prime Minister was handed over to EU Council President Donald Tusk by the UK's ambassador to the EU Sir Tim Barrow. Negotiations with other EU countries are expected to begin in mid-May.

UK Parliament

General

58. On 14 March, MPs voted for the [European Union \(Notification of Withdrawal\) Bill](#), allowing the government to trigger Article 50 for the UK to leave the EU. The Bill was passed unamended in the Commons after the House of Lords agreed not to challenge the Commons again over the guarantees over the status of EU citizens in the UK and over the parliamentary vote on the final terms of withdrawal.

Communities and Local Government Committee

59. At its [meeting](#) on 14 March, the Committee took evidence on the Government's planned reform for supported housing funding from housing associations and local authorities as part of a joint inquiry with the Work and Pensions Committee.
60. At its [meeting](#) on 28 March, the Committee continued their inquiry into the future of support housing. It took evidence from ministers and officials from the Department for Work and Pensions and Department for Communities and Local Government.
61. On 31 March, the Committee published a report, "[Adult Social Care](#)". The report highlighted that "unless significant extra funds are provided in the short and medium terms, the social care system will be unable to cope with the demands placed upon it. Extra funding alone will not solve the problems that face us, but without it the other steps we have suggested [social care] will quite simply fail." While the Committee welcomed the Chancellor's commitment to provide an additional £2 billion for social care, it found this is not enough to close the funding gap.

Scottish Affairs Committee

62. On 9 March, the Committee held a [Westminster Hall Debate](#) to discuss the findings of its report, "[The demography of Scotland and the implications of devolutions](#)" (published in November 2016). The report called for further actions to attract skills workers and urged the Government to consider sub-national migration powers to meet Scotland's specific needs.
63. At its [meeting](#) on 20 March, the Committee held the second joint session with the Social Security Committee of the Scottish Parliament to examine how the Scottish and UK governments are co-operating to ensure a smooth transition of the newly devolved power. They took evidence from Damian Green MP, Secretary of State for Work and Pensions, Angela Constance MSP, Cabinet Secretary for Communities, Social Security and Equalities and members of the UK and Scottish governments respectively.

Public Accounts Committee

64. At its [meeting](#) on 29 March, the Committee held an evidence session to examine whether adults with learning disabilities are getting the support they need to live in the community. Witness included NHS England, charities and third sector organisations. This inquiry was based on the National Audit Office (NAO)'s report (see below).

Other UK Audit Bodies

National Audit Office (NAO)

65. On 3 March, the NAO published a report, "[Local support for people with a learning disability](#)", which examines how the NHS in England and local authorities improve the lives of people who use local authority learning disability support services. The report found that while good progress has been made in establishing a programme to close hospital beds for people with a learning disability, the programme needs to be improved to achieve value for money.
66. On 20 March, the NAO published [round-up reports for audit committees](#). The reports provide an overview of the latest NAO resources for governance and oversight, risk management and strategic management, aiming at supporting audit committees, Boards and others.
67. On 29 March, the NAO published a report, "[Planning for 100% local retention of business rates](#)". The report highlighted a number of challenges in implementing the

scheme by 2019-20, such as delivering the Fair Funding Review, which presents risks to the timely delivery of the scheme and to the achievement of its core objectives for the scheme (that are, to drive local economic growth and promote financial self-sufficiency for local government).

Wales Audit Office (WAO)

68. On 9 March, the WAO published a report, "[Local Government Financial Statements 2015-16](#)". The report saw that while local authorities have improved the quality of their pre-audit financial statements for 2015/16, they still face challenges in the medium term to improve and produce their accounts earlier.

Other general

69. On 8 March, CIPFA's Local Authority Accounting Code Board decided to postpone indefinitely the introduction of the Highways Network Code into financial reporting for local authorities, due to the lack of central funding for key elements of the valuation. The board would not give further consideration unless clear evidence was presented that benefits outweighed costs, while it believes that the Code has led to significant improvements in asset management in this area. More details will be provided at FAAC on 30 April.
70. On 29 March, CIPFA has launched a [Brexit Advisory Commission for Public Services](#) to consider the risks and opportunities for the public sector. The Commission, chaired by former Liberal Democrat MP Julia Goldsworthy, will examine the impact of negotiations on public services and intend to ensure the government fully considers public sector needs. Areas of focus will include state aid regulations, structural and investment funding and the future of EU nationals employed in the public sector.

Conclusion

71. The Commission is invited to consider and note this report.

Paul Reilly
Secretary to the Commission
31 March 2017

MEETING: 13 APRIL 2017

REPORT BY: DIRECTOR OF PERFORMANCE AUDIT AND BEST VALUE

CIPFA CONSULTATIONS ON THE PRUDENTIAL CODE AND THE TREASURY
MANAGEMENT CODE OF PRACTICE

Purpose

1. This paper invites the Commission to consider its response to CIPFA's consultations on the Prudential Code and the Treasury Management Code of Practice and to agree the process for finalising the response.

Background

2. The Chartered Institute of Public Finance Accountants (CIPFA) is consulting on the [Prudential Code for Capital Finance in Local Authorities](#) and the [Treasury Management Code of Practice](#). These are two separate but related consultations. The consultations are quite technical in nature, and many of the questions are designed for organisations which use the Codes of Practice. The deadline for responses to both consultations is 21 April 2017.
3. The Accounts Commission produced a performance audit 'Borrowing and treasury management in local authorities' in March 2015, and this will be a useful basis for the consultation responses. An impact report in this regard was also published in November 2016. The Commission has also previously commented on the Prudential Code in local government overview reports.

Areas for consideration

4. The Commission will first of all want to decide whether it wishes to respond to both the consultations. While the Treasury Management Code consultation is very short and directed to users of the code, the Commission may still feel it wishes to respond in broad terms, reminding CIPFA and a wider audience of some important principles.
5. In relation to the Prudential Code consultation, the Commission may want to focus on strengthening the strategic planning of the Prudential Code. In the consultation paper CIPFA make reference to the Accounts Commission's findings and recommendations in its borrowing and treasury management report on the need for longer-term financial planning and analysis. This was one of the main recommendations from the Commission's report.
6. If the Commission does decide to respond, we will draw on the evidence and findings from the performance audit report to give more detail and context to CIPFA as to why this recommendation was necessary. We will also draw on our other audit work where applicable.
7. The Commission may want to consider if it would like to express thoughts on the following general question:
 - Do you consider the four objectives of the Prudential Code are still relevant? The four objectives are:

- a. capital expenditure plans are affordable
- b. all external borrowing and other long-term liabilities are within prudent and sustainable levels
- c. treasury management decisions are taken in accordance with good professional practice

and that in taking decisions in relation to (a) to (c) above the local authority is:

- d. accountable, by providing a clear and transparent framework.

8. The 'Borrowing and treasury management' performance audit report covers these areas, and recommended better long-term analysis and scrutiny. However, it does not explicitly comment on the relevance of the objectives and whether others should be included.

Conclusion

9. The Commission is invited to discuss the CIPFA consultations, and:

- a) agree whether to respond to both consultations
- b) if it does decide to respond to one or both consultations, agree the main points it wishes to make
- c) agree to delegate responsibility for signing off the response to the Acting Chair and the sponsors of the 'Borrowing and treasury management' performance audit report (Graham Sharp and Pauline Weetman).

Fraser McKinlay
Director of Performance Audit
5 April 2017

The Prudential Code for Capital Finance in Local Authorities

Consultation

February 2017

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

The Prudential Code for Capital Finance in Local Authorities Consultation

Introduction

1. The *Prudential Code for Capital Finance in Local Authorities* (2011) (Prudential Code) was introduced in 2004 and local authorities are required to “have regard” to it when developing their capital investment plans. The Prudential Code was developed as a professional code of practice to support local strategic planning, asset management planning and proper option appraisal for local authorities when developing their programmes for capital investment in fixed assets. Its objectives are to ensure, within a clear framework, that capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. The prudential indicators within the Prudential Code are designed to demonstrate compliance with these objectives and to provide assurance to government that local authorities are acting responsibly.
2. The Prudential Code was last updated in 2011. Since then the landscape for local government has changed significantly following the sustained period of reduced public spending and the developing localism agenda. National Audit Office (NAO) work showed that revenue income for English local authorities fell by 25.2% in real terms from 2010/11 to 2015/16.¹ While capital spending operates within different rules, there are important interdependencies between the two. In 2016 the NAO² found that English local authorities have faced less pressure on their resources to support capital expenditure relative to revenue. It identified that the primary challenge has been to minimise the revenue cost of capital programmes. As a result, local authorities have needed to review their financial strategies, refocus their resources and explore different ways of working.
3. It is therefore considered an appropriate time for the Prudential Code to be reviewed and views sought as to areas where it can be strengthened or amended.

Objectives of the Prudential Code

4. The following objectives of the Prudential Code have not changed since its introduction and are to provide a framework for local authority capital finance that will ensure for individual local authorities that:
 - i) capital expenditure plans are affordable
 - ii) all external borrowing and other long-term liabilities are within prudent and sustainable levels
 - iii) treasury management decisions are taken in accordance with good professional practiceand that in taking decisions in relation to (i) to (iii) above the local authority is:
 - iv) accountable, by providing a clear and transparent framework.
5. Given the changing environment within which the Prudential Code operates this consultation is seeking views on the ongoing relevance of these objectives.

¹ Comptroller and Auditor General, *Financial Sustainability of Local Authorities 2014*, Session 2014-15, HC 783, National Audit Office, November 2014.

² Comptroller and Auditor General, *Financial Sustainability of Local Authorities: Capital Expenditure and Resourcing 2016*, Session 2016-17, HC 234, National Audit Office, June 2016.

Consultation Question 1 Do you consider the four objectives of the Prudential Code are still relevant?

If not, please list the objectives which you feel are no longer relevant and why.

Consultation Question 2 Do you consider that the Prudential Code achieves these four objectives?

If not, please list the objectives which are not achieved and why.

Consultation Question 3 Do you consider that there are any areas which are not fully covered by these objectives?

If yes, please expand, describing how these areas could be covered within the objectives.

Scope

6. The Prudential Code applies to local authorities, including police, fire and other authorities. This consultation is seeking views on whether this coverage is considered adequate or whether its scope should be extended, especially where structures are changing such as with elected mayors and increasing numbers of arm's length organisations.

Mayoral combined authorities

7. In the Autumn Statement 2016, the government stated that it plans to give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury. CIPFA is proposing to extend the scope of the Prudential Code to cover mayoral combined authorities and to require specific indicators such as the capital financing requirement to be produced for separate combined authority funds in a similar way to those produced for authorities with a housing revenue account.

Consultation Question 4 Do you agree that the scope of the Prudential Code should be extended to cover mayoral combined authorities?

If not, please provide your reasons.

Consultation Question 5 Do you foresee any practical implementation issues with extending the scope of the Prudential Code to cover mayoral combined authorities?

If yes, please detail the potential issues along with any suggestions you may have for overcoming them.

Group entities

8. The *Code of Practice on Local Authority Accounting in the United Kingdom* sets out a requirement for a local authority to prepare group accounts where the authority has interests in subsidiaries, associates and/or joint ventures, subject to consideration of materiality. A reporting authority is required to disclose information that enables users of its financial statements to evaluate:

- a) the nature of, and risks associated with, its interests in other entities, and
- b) the effects of those interests on its financial position, financial performance and cash flows.

Consultation Question 6 Do you agree that, in principle, the scope of the Prudential Code should be extended to cover group entities to ensure that any associated risks are transparent and managed?

If not, please explain why.

Consultation Question 7 Which areas of the Prudential Code could best be applied to group entities and do you foresee any practical implementation issues with extending the scope of the Prudential Code to cover group entities?

If yes, please detailed the potential issues, along with any suggestions you may have for overcoming them.

Commercialisation

9. With the ongoing reduction in available resources and growing demands for services, local authorities have found innovative new ways of delivering services, such as increasing use of local authority companies and different routes to generating income. Increasingly local authorities are focusing on commercials, including increasing the number of services which are commissioned, maximising the commercial value of contracts and developing local markets.
10. This new approach brings the need to consider new and different risks for local authorities. It is essential that such risks are managed in an open and transparent way and views are sought on how the Prudential Code can be strengthened to encompass these risks.

Consultation Question 8 How do you suggest the Prudential Code can be strengthened to encompass the risks associated with local authorities' increasing commercial activities?

Long term implications of decision making

11. Reports from Audit Scotland (March 2015) and the NAO (June 2016) both included recommendations in relation to considering the long term implications of decision making.
12. The framework established by the Prudential Code was intended to support local strategic planning, asset management planning and proper option appraisal. The prudential indicators are only required to be approved and published for three years when determining programmes of capital investment. Views are therefore sought from stakeholders as to how the strategic planning elements can be strengthened in the Prudential Code.

Consultation Question 9 How do you suggest the strategic planning elements of the Prudential Code can be strengthened to demonstrate that capital investment is sustainable and that risks are appropriately identified?

Prudential indicators

13. The prudential indicators in the Prudential Code are designed to demonstrate how a local authority is achieving the four objectives of the Prudential Code and to provide assurance to government that local authorities are acting responsibly. The indicators are grouped into affordability, prudence and those for capital expenditure, external debt and treasury management. The Appendix provides more details on the indicators along with their intended purpose.
14. Given the changing landscape for local authorities, views are sought on how the prudential indicators can be improved to enhance the assurance they provide.

Consultation Question 10 Please detail any suggestions for how the prudential indicators could be improved in order that the assurance they provide is enhanced, including details of any indicators which you consider no longer fully serve their intended purpose. Please explain your reasoning.

Consultation Question 11 If you use local indicators, please provide details including the calculation and how you use the indicator(s).

Treasury Risk Management Toolkit for Local Authorities

15. For many years CIPFA's Treasury and Capital Management Panel has advocated a risk management approach to treasury management and sought to provide practical tools for local authorities to use to identify, benchmark and manage their treasury management risks.
16. In 2012 the Panel produced the *Treasury Risk Management Toolkit for Local Authorities*. This publication proposed a risk management methodology based on:
 1. establishing the organisation's risk appetite
 2. quantifying risk benchmarks against which to measure the level of risk
 3. taking decisions and managing the portfolio based on the agreed risk benchmarks
 4. reviewing the outcomes and performance relative to the risk benchmarks.
17. The publication introduced the concept of the liability benchmark based on a local authority's net cash requirement, opening loan debt and any short term liquidity requirements. The Prudential Code focuses on the capital financing requirement (CFR) as a measure of borrowing need, however, the CFR does not take into account non-capital cash flows and movements and many authorities have a net loan debt below the CFR.
18. The Panel would like to formalise the concept of the liability benchmark in the Prudential Code and is seeking views and practical suggestions for implementation.

Consultation Question 12 How do you suggest that the Prudential Code can be strengthened to incorporate the concept of the liability benchmark?

Treasury Management in the Public Services: Guidance Notes for Local Authorities

19. As detailed in the Appendix, there are a number of treasury management indicators contained within the *Treasury Management in the Public Services: Guidance Notes for Local Authorities*. CIPFA is keen to receive feedback on whether the practitioners consider the balance of indicators between the Prudential Code and the *Treasury Management in the Public Services: Guidance Notes for Local Authorities* is correct.

Consultation Question 13 Do you consider that the balance of indicators between the Prudential Code and the *Treasury Management in the Public Services: Guidance Notes for Local Authorities* is correct?

If not, please explain why.

The consultation process

20. Responses to this consultation should be made in the accompanying Word document and returned to mandy.bretherton@cipfa.org by 21 April 2017.
21. The Treasury and Capital Management Panel will consider the consultation responses and then hold a further formal consultation on proposed changes to the Prudential Code over the summer. It is anticipated that the revised Prudential Code will be published in time for implementation in 2018/19.
22. The Treasury and Capital Management Panel is also seeking views on the [Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes](#). It is planned that the two consultations are run to the same timescales.

APPENDIX

Indicators for affordability

A. Ratio of financing costs to net revenue stream

This indicator, which provides an estimate for the forthcoming financial year and the following two financial years and the actual ratio after the year end, enables financing costs to be shown as a proportion of the net revenue stream.

This identifies the capacity of the local authority to respond to changes in financial costs. For example, an authority with a high proportion of financing costs when compared to its net revenue stream may be less able to respond to either increases in cost or reductions in net revenue stream.

B. Estimates of the incremental impact of capital investment decisions on the council tax

This indicator, which is undertaken for the forthcoming year and the following two financial years, enables the local authority to see the impact on council tax of proposed changes to the capital programme.

Indicators for prudence

C. Gross debt and the capital financing requirement

This indicator (which was changed from 'net' debt to 'gross' debt in 2012) is to ensure that over the medium term debt is only for capital purposes. A local authority's capital financing requirement is effectively its underlying requirement to borrow and is made up of capital expenditure which has not been financed from another source such as capital receipt, grant or directly from revenue.

By ensuring that debt does not (except in the short term) exceed the capital financing requirement (of the preceding year, plus estimates of any increases in the current year and next two financial years) a local authority is able to demonstrate that its debt is for capital purposes.

Indicators for capital expenditure, external debt and treasury management

D. Capital expenditure

The four indicators for capital expenditure are as follows:

- estimates of capital expenditure
- actual capital expenditure
- estimates of capital financing requirement
- actual capital financing requirement.

Estimates are for the forthcoming year and the following two years and actuals are for the previous financial year.

External debt

E. Authorised limit

Local authorities in England, Wales and Northern Ireland are required to determine and keep under review how much money they can afford to borrow. The authorised limit (set for the forthcoming and following two years) is the means of demonstrating the legislative requirements in England, Wales and Northern Ireland.

F. Operational boundary

The operational boundary is based on a local authority's most likely scenario for its external debt and is therefore a key tool for in-year monitoring.

G. Actual external debt

This is the closing balance at the end of the year, obtained directly from the balance sheet.

All three of these external debt indicators shall be expressed split between borrowing and other long term liabilities.

H. Treasury management

The indicator within the Prudential Code in respect of treasury management is that the local authority has adopted the CIPFA *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes*. The aim is to ensure that treasury management is led by a clear and integrated treasury management strategy using a risk management approach and a recognition of the pre-existing structure of the authority's borrowing and investment portfolios.

The *Treasury Management in the Public Services: Guidance Notes for Local Authorities* (including police authorities and fire authorities) also include a number of specific treasury management indicators.

I. Interest rate exposures

A local authority is required to set upper limits on its fixed rate and variable rate exposures. This indicator facilitates the management of the risks associated with different fixed and variable interest rate exposures.

J. Maturity structure of borrowing

Upper and lower limits are set with respect to the maturity structure of borrowing (for the forthcoming and following two years). This indicator allows an authority to manage the refinancing risks associated with maturing borrowings.

K. Total principal sums invested for periods longer than 364 days

An upper limit shall be set for the maturity of investment for periods of longer than 364 days (for each forward financial year). This is to assist in managing the risks associated with the possibility of loss which may arise as a result of its having to seek early repayment of or redemption of principal sums invested.

Treasury Management in the Public Services: Code of Practice and Cross- Sectoral Guidance Notes

Consultation

February 2017

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed.

As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes Consultation

Introduction

1. The first version of the *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (Treasury Management Code) was published in 2001 with a recommended start date of 1 April 2002. While the Treasury Management Code covers all public services, it is primarily designed for the use of local authorities (including police and fire authorities), providers of social housing, higher and further education institutions and the National Health Service. Local authorities in England, Scotland and Wales are required to “have regard” to the Treasury Management Code.
2. The Treasury Management Code defines treasury management as follows:
The management of the organisation’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
3. The Treasury Management Code was last updated in 2011. Since then the landscape for public services has changed significantly following the sustained period of reduced public spending and the developing localism agenda. There are significant treasury management portfolios within the public services; for example, as at 31 March 2016 UK local authorities had outstanding borrowing of £88bn and investments of £32bn.
4. It is therefore an appropriate time for the Treasury Management Code to be reviewed and views sought as to areas where it can be strengthened or amended.

Who is this consultation aimed at?

5. Views are sought from any public service organisation, however, responses are specifically welcomed from local authorities, providers of social housing, higher and further education institutions and the National Health Service.

Scope

6. Local authorities are required to “have regard” to the Treasury Management Code. CIPFA believes that the recommendations made in the Treasury Management Code provide a basis for **all** public service organisations to create clear treasury management objectives and to structure and maintain sound treasury management policies and practices. CIPFA would like to understand through this consultation the extent to which the Treasury Management Code is adopted by public service organisations and if there are specific barriers to its adoption.

Consultation Question 1 Has your public service organisation adopted the Treasury Management Code?

If yes, please detail any practical implementation issues you have experienced, along with any suggestions for improvement.

If not, please explain why not and identify any specific barriers along with any suggestions you may have to remove the barriers.

Key principles of the Treasury Management Code

7. The following are the three key principles identified in the Treasury Management Code:

Key principle 1

Public service organisations should put in place formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective management and control of their treasury management activities.

Key principle 2

Their policies and practices should make clear that the effective management and control of risk are prime objectives of their treasury management activities and that responsibility for these lies clearly within their organisations. Their appetite for risk should form part of their annual strategy, including any use of financial instruments for the prudent management of those risks, and should ensure that priority is given to security and liquidity when investing funds.

Key principle 3

They should acknowledge that the pursuit of value for money in treasury management, and the use of suitable performance measures, are valid and important tools for responsible organisations to employ in support of their business and service objectives; and that within the context of effective risk management, their treasury management policies and practices should reflect this.

8. Given the changing environment within which the Treasury Management Code operates this consultation is seeking views on the ongoing relevance of these principles.

Consultation Question 2 Do you consider that the three principles of the Treasury Management Code are relevant to your organisation?

If not, please explain why and provide any suggestions to make them more relevant.

Consultation Question 3 Do you consider that there any areas which are not fully covered by these principles?

If yes, please expand, describing how these areas could be covered within the principles.

The consultation process

9. Responses to this consultation should be returned to mandy.bretherton@cipfa.org by 21 April 2017.
10. The Treasury and Capital Management Panel will consider the consultation responses and then hold a further formal consultation on proposed changes to the Treasury Management Code over the summer. It is anticipated that the revised Treasury Management Code will be published in time for implementation in 2018/19.
11. The Treasury and Capital Management Panel is also seeking views on the [Prudential Code for Capital Finance in Local Authorities](#). The two consultations are being run to the same timescales.

MEETING: 13 APRIL 2017**REPORT BY: ASSISTANT AUDITOR GENERAL****REVISED FORM OF INDEPENDENT AUDITOR'S REPORTS**

Purpose

1. The purpose of this paper is to seek the Commission's approval for the revised form of independent auditor's reports in respect of local authorities, local authority pension funds and section 106 charities for 2016/17.

Background

2. The audit certificate placed on local authority annual accounts by appointed auditors is required by the Local Government (Scotland) Act 1973 to be 'in such form as the Commission may direct'. The current certificate is based on the format set out in international standard on auditing (ISA) 700 on independent auditor's reports. ISA 700 has been revised and sets out a refreshed structure and wording for the report which is generally considered to represent best practice.
3. Although the revised ISA 700 does not formally apply in full until 2017/18, after consulting with auditors, we consider that we should follow the new form of report set out in the revised ISA from 2016/17 so that we are applying best practice from the first year of the new audit appointments.
4. In addition, in line with best practice, appointed auditors will be required from 2016/17 to provide new opinions on whether the management commentary and annual governance statement have been prepared in accordance with applicable legal requirements.

Main differences from current structure and wording

5. The revised form of report contains significant differences in the structure and wording including:
 - Presenting the opinion on the financial statements in the first part of the report, rather than the middle.
 - An additional paragraph explaining the basis on which the opinion is given.
 - Having a clearer separation between reporting on the audit of the financial statements as required by ISAs compared with other reporting requirements.
 - Additional explanations of auditor's responsibilities for the audit of the financial statements and the other information in the annual accounts.
6. The Financial Reporting Council (FRC) has issued illustrative examples of independent auditor's reports under the revised ISA 700 for companies in the private sector. We have prepared model reports for local authorities in Scotland that are based on the FRC illustrations but tailored to reflect public sector legislation and augmented by specific reporting requirements of the Commission. We have also prepared consistent model reports for public bodies within the Auditor General's remit.

7. The following model reports are provided in the appendices to this paper:
- **Appendix 1** – model report for councils which prepare group accounts. There is also a separate model for councils that do not prepare group accounts and bodies within section 106 of the 1973 Act (e.g. integration joint boards, valuation joint boards, joint committees, regional transport partnerships etc). The only difference from the model in Appendix 1 is that references to ‘the group’ do not appear, and therefore the latter model has not been replicated in this paper.
 - **Appendix 2** – model report for local authority pension funds.
 - **Appendix 3** – registered charities falling with section 106 of the 1973 Act that prepare their accounts on an accrued basis. There is also a separate model for charities preparing their accounts on a receipts and payments basis. Again the wording differences are minor and the latter has not been replicated in this paper.
8. The models have already been the subject of a consultation exercise with auditors and have been agreed subject to Commission approval. Once approved, the models will be provided to auditors in a technical guidance note. The models apply where the auditor’s opinions are not qualified, which is generally the case. Guidance on necessary amendments where a qualification is required will also be included in the technical guidance note.
9. The models include some wording (in the first paragraph on auditor’s responsibilities) which we are required to include in 2016/17 in order to comply with explicit requirements in the current ISA 700. This wording will be removed from the models when the revised ISA 700 is formally adopted in 2017/18. In addition, the adoption of the revised ISA 700 will necessitate a separate model for Aberdeen City Council as the council will meet the definition in EU regulations of a ‘public interest entity’ by virtue of its issue of a listed bond. A separate paper for 2017/18 models will be provided to the Commission in due course.

New opinions

10. Recent amendments to the Companies Act require auditors to give an explicit opinion on whether the strategic report and governance statement have been prepared in accordance with legal requirements. Our policy is to apply Companies Act requirements on a best practice basis.
11. After consulting with appointed auditors, we have therefore added new opinions on whether the:
- Management commentary has been prepared in accordance with statutory guidance.
 - Annual governance statement has been prepared in accordance with the proper practices set out in the good governance code.

Conclusion

12. The Commission is asked to approve the model independent auditor’s reports for local authorities, local authority pension funds and section 106 charities.

Russell Frith
Assistant Auditor General
5 April 2017

Model independent auditor's report – councils

Independent auditor's report to the members of [insert name of council] and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, [I/we] do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

[I/We] certify that [I/we] have audited the financial statements in the annual accounts of [insert name of council] and its group for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the [specify precisely the titles of the primary statements used by the council such as the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash-Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Council Tax Income Account, and the Non-domestic Rate Account] and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In [my/our] opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the state of affairs of the council and its group as at 31 March 2017 and of the surplus [or deficit] on the provision of services of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

[I/We] conducted [my/our] audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). [My/Our] responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of [my/our] report. [I am/We are] independent

of the council and its group in accordance with the ethical requirements that are relevant to [my/our] audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and [I/we] have fulfilled [my/our] other ethical responsibilities in accordance with these requirements. [I/We] believe that the audit evidence [I/we] have obtained is sufficient and appropriate to provide a basis for [my/our] opinion.

Responsibilities of the [insert job title of proper officer] for the financial statements

As explained more fully in the Statement of Responsibilities, the [insert job title of proper officer] is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the [insert job title of proper officer] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

[My/Our] responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the council and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the [insert job title of proper officer]; and the overall presentation of the financial statements.

[My/Our] objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes [my/our] opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The [insert job title of proper officer] is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and [my/our] auditor's report thereon. [My/Our] opinion on the financial statements does not cover the other information and [I/we] do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with [my/our] audit of the financial statements in accordance with ISAs (UK&I), [my/our] responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by [me/us] in the course of performing the audit. If [I/we] become aware of any apparent material misstatements or inconsistencies [I/we] consider the implications for [my/our] report.

Report on other requirements

Opinions on other prescribed matters

[I am/We are] required by the Accounts Commission to express an opinion on the following matters.

In [my/our] opinion, the auditable part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

In [my/our] opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

Matters on which [I am/we are] required to report by exception

[I am/We are] required by the Accounts Commission to report to you if, in [my/our] opinion:

- adequate accounting records have not been kept; or
- the financial statements and the auditable part of the Remuneration Report are not in agreement with the accounting records; or
- [I/we] have not received all the information and explanations [I/we] require for [my/our] audit; or
- there has been a failure to achieve a prescribed financial objective.

[I/We] have nothing to report in respect of these matters.

[Signature]

[Name of individual auditor], (for and on behalf of [name of firm] - firms only)

[Full postal address] and [Full date]

Model independent auditor's report – local government pension scheme pension funds

Independent auditor's report to the members of [insert name of council] as administering authority for [insert name of each pension fund] and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, [I/we] do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

[I/We] certify that [I/we] have audited the financial statements in the annual accounts of [insert name of each pension fund] for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the [specify precisely the titles of the primary statements used by the council such as the Fund Account(s), the Net Assets Statement(s)] and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In [my/our] opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the [fund/funds] during the year ended 31 March 2017 and of the amount and disposition at that date of [its/their] assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

[I/We] conducted [my/our] audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). [My/Our] responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of [my/our] report. [I am/We are] independent of the [fund/funds] in accordance with the ethical requirements that are relevant to [my/our] audit of the financial statements in the UK including the Financial Reporting

Council's Ethical Standards for Auditors, and [I/we] have fulfilled [my/our] other ethical responsibilities in accordance with these requirements. [I/We] believe that the audit evidence [I/we] have obtained is sufficient and appropriate to provide a basis for [my/our] opinion.

Responsibilities of the [insert job title of proper officer] for the financial statements

As explained more fully in the Statement of Responsibilities, the [insert job title of proper officer] is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the [insert job title of proper officer] determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

[My/Our] responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the [fund/funds] and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the [insert job title of proper officer]; and the overall presentation of the financial statements.

[My/Our] objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes [my/our] opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the annual accounts

The [insert job title of proper officer] is responsible for the other information in the annual accounts. The other information comprises the information other than the financial statements and [my/our] auditor's report thereon. [My/Our] opinion on the financial statements does not cover the other information and [I/we] do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with [my/our] audit of the financial statements in accordance with ISAs (UK&I), [my/our] responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial

statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by [me/us] in the course of performing the audit. If [I/we] become aware of any apparent material misstatements or inconsistencies [I/we] consider the implications for [my/our] report.

Report on other requirements

Opinions on other prescribed matters

[I am/We are] required by the Accounts Commission to express an opinion on the following matters.

In [my/our] opinion, based on the work undertaken in the course of the audit

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

Matters on which [I am/we are] required to report by exception

[I am/We are] required by the Accounts Commission to report to you if, in [my/our] opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- [I/we] have not received all the information and explanations [I/we] require for [my/our] audit.

[I/We] have nothing to report in respect of these matters.

[Signature]

[Name of individual auditor], (for and on behalf of [name of firm] - firms only)

[Full postal address], [Full date]

Model independent auditor's report – registered section 106 charities

Independent auditor's report to the trustees of [insert name of charity/collective name of connected charities] and the Accounts Commission

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice approved by the Accounts Commission, [I/we] do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Report on the audit of the financial statements

Opinion on financial statements

[I/We] certify that [I/we] have audited the financial statements in the statement of accounts of [insert name of charity/collective name of connected charities] for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the [specify precisely the titles of the primary statements used by the council for the charity such as the Statement of Financial Activities, the Balance Sheet] and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In [my/our] opinion the accompanying financial statements:

- give a true and fair view of the state of the affairs of the [charity/charities] as at 31 March 2017 and of [its/their] incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Basis of opinion

[I/We] conducted [my/our] audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). [My/Our] responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of [my/our] report. [I am/We are] independent of the [charity/charities] in accordance with the ethical requirements that are relevant to [my/our] audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and [I/we] have fulfilled [my/our] other ethical responsibilities in accordance with these requirements. [I/We] believe that the audit

evidence [I/we] have obtained is sufficient and appropriate to provide a basis for [my/our] opinion.

Responsibilities of the trustees for the financial statements

As explained more fully in the Statement of Responsibilities [delete preceding phrase if no such statement included], the trustees are responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the trustees determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

[My/Our] responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the [charity/charities] and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

[My/Our] objectives are to achieve reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes [my/our] opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK&I) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Other information in the statement of accounts

The trustees are responsible for the other information in the statement of accounts. The other information comprises the information other than the financial statements and [my/our] auditor's report thereon. [My/Our] opinion on the financial statements does not cover the other information and [I/we] do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission or required by applicable law to the extent explicitly stated later in this report.

In connection with [my/our] audit of the financial statements in accordance with ISAs (UK&I), [my/our] responsibility is to read all the financial and non-financial information in the statement of accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by [me/us] in the course of

performing the audit. If [I/we] become aware of any apparent material misstatements or inconsistencies [I/we] consider the implications for [my/our] report.

Report on other requirements

Opinion on other prescribed matter

[I am/We are] required by the Accounts Commission to express an opinion on the following matter. In [my/our] opinion, based on the work undertaken in the course of the audit the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Charities SORP (FRS 102).

Matters on which [I am/we are] required to report by exception

[I am/We are] required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in [my/our] opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- [I/we] have not received all the information and explanations [I/we] require for [my/our] audit.

[I/We] have nothing to report in respect of these matters.

[Signature]

[Name of individual auditor], (for and on behalf of [name of firm] - firms only)

[Full postal address]

[Full date]

[insert name of auditor] is eligible to act as an auditor in terms of [insert either section 1212 of the Companies Act 2006 (for applicable firms)/Part VII of the Local Government (Scotland) Act 1973 (for Audit Scotland staff and firms where auditor is not eligible under the Companies Act)]